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January 17, 2024

Honorable Miguel Cardona
Secretary
U.S. Department of Education
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Dear Secretary Cardona:

Your Department has again failed America’s hardworking taxpayers. Errors in student loan data uncovered by KPMG LLP (KPMG) and used by the Department of Education (Department) “to develop assumptions . . . to calculate . . . subsidy re-estimates” for the Direct Loan and Federal Family Education Loan (FFEL) programs put the lack of competence of the Department and its leadership in sharp relief.¹ Uncovered during KPMG’s annual audit of the Department’s Fiscal Year 2023 financial statements, the errors resulted in a Disclaimer of Opinion for the second consecutive year. KPMG was not able to obtain “sufficient appropriate audit evidence [from the Department] to provide a basis for an audit opinion.”² Indeed, the Department itself “was unable to determine the extent of the impact of these issues on the balance sheet and related notes.”³ Simply put, the Department has failed an audit two years in a row, been derelict in its duties, and continues to make up estimates it cannot defend to its auditor. We are deeply disturbed by this administration’s bungling, general ineptness, and deliberate wasteful spending of taxpayer dollars. The American people deserve better.

Material Weakness

KPMG also found a material weakness in the Department’s internal controls, noting its “Controls over the Relevance and Reliability of Underlying Data Used in Credit Reform Estimates Need Improvement.”⁴ We are aware the Department annually performs subsidy re-estimates of its Direct Loan and FFEL programs as of September 30, and that it calculates the re-

¹ KPMG LLP, Independent Auditors’ Report, FY2023, Agency Financial Report, U.S. Department of Education (Nov. 16, 2023) at 102.

² *Id.*

³ *Id.*

⁴ *Id.* at 105.

estimates using the Department-developed cash flow model, the Student Loan Model (SLM).⁵ In turn, the SLM uses assumptions based on “internally sourced data elements” from the Department’s Information Technology (IT) systems.⁶ In a final step, the future cash flows generated by the SLM are then inserted into the Office of Management and Budget’s present value tool to produce the subsidy re-estimates.⁷

The material weakness certainly casts doubt on the inputs for the SLM and potentially the overall operation of the SLM. As KPMG noted, “[Department] [m]anagement did not design and implement sufficiently precise controls over the relevance and reliability of certain data used in key assumptions for the SLM.”⁸ Further, as KPMG noted, the Department’s risk assessment process was faulty. It was insufficient to “identify the risk related to the relevance and reliability of the...data used in significant assumptions for the subsidy re-estimates.”⁹

Communication problems were cited by KPMG as well. The Department’s management failed to “sufficiently communicate errors in the underlying data internally to those responsible for calculating the subsidy re-estimates.”¹⁰ Based on the findings of the audit, it is unclear when Department management first became aware of the errors in the underlying data and why management did not properly communicate those data errors to others in the Department in charge of the subsidy re-estimates. Finally, as a part of its material weakness determination, KPMG warned the Department that such errors can “increase[] the risk that the balance sheet and related notes could be materially misstated.”¹¹

Significant Deficiencies

KPMG drew attention to prior-year Department and Federal Student Aid (FSA) significant IT control deficiencies that had not been fully remediated (e.g., logical access administration, separated and transferred user access removal, user access reviews and recertification, configuration management, and computer operations).¹² Significantly, KPMG reported in past years a deficiency in IT controls “due to persistent unmitigated IT control deficiencies.”¹³ KPMG also cited the Department and FSA for “[n]ew and existing” deficiencies “related to security management, access controls, and segregation of IT duties for the department’s core financial management system, three of FSA’s financial and mixed systems, and one identity and access management support system.”¹⁴

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.* at 106.

¹³ *Id.*

¹⁴ *Id.*

Committee on Education and the Workforce (Committee) Needs

Given the second consecutive Disclaimer of Opinion while on your watch, we have become more and more concerned about the Department's basic ability to manage the resources entrusted to it and to calculate accurately the value of the Direct and FFEL programs.

Rule XI, Clause 2(o) of the House of Representatives requires the Committee to hold a hearing on "disclaimers of agency financial statements" issued by an auditor.¹⁵ As earlier referenced, KPMG issued a Disclaimer of Opinion on the Department's FY2023 financial statements on November 16, 2023.¹⁶ Given the requirement of Rule XI and the need for oversight of the Department's failures, the Committee insists upon your personal testimony at a hearing, imminently. We will be in communication with you about a February hearing date. We expect you to be fully knowledgeable and conversant with the matters raised in the auditor's report and to provide complete answers to Members' questions at the hearing.

To help the Committee better understand the errors cited by KPMG, please also respond in writing to the following questions and document requests (instructions attached) no later than Wednesday, January 31, 2024:

1. Was the Department aware of the errors through its own sampling or other means prior to KPMG's notification to the Department, and if not, what is the date the Department was first notified by KPMG of the errors associated with the subsidy re-estimates cited in the Independent Auditors' Report? If the Department was aware of the errors prior to KPMG's notification, when did the Department become aware, what actions did the Department take to address the errors, and when did the Department disclose the errors to KPMG?
2. Provide a detailed description of the "errors in the underlying data" used by the Department "to develop assumptions used to calculate the subsidy re-estimates." Include in the above description the breadth and scope of the errors as determined by the Department.
3. Provide a detailed status report and timeline of the progress of the Department in resolving the errors covering the period the Department first became aware of the errors (either internally or through notification by KPMG) through the date of the Department's response.
4. Provide communications and correspondence, including but not limited to electronic mail (email), email attachments, texts, letters, memoranda, and other documentation and virtual meeting recordings of or between any of the following Department officials (during the period October 1, 2022, through the date the search for the communications and correspondence is conducted) that mention or otherwise are associated with errors in the underlying data used to develop assumptions used to calculate the subsidy re-estimates for the Direct Loan and FFEL programs:

¹⁵ Rules of the House of Representatives, 118th Cong. at 20 (Dec. 11, 2023).

¹⁶ FY2023 Agency Financial Report, U.S. Department of Education at 102-113 (Nov. 16, 2023).

- A. Secretary of Education Miguel Cardona
 - B. Under Secretary James Kvaal
 - C. Deputy Secretary Cindy Marten
 - D. FSA Chief Operating Officer Richard Cordray
 - E. Deputy Under Secretary and Chief Economist Jordan Matsudaira
 - F. Acting Assistant Secretary for the Office of Finance and Operations and Delegated to Perform the Functions and Duties of the Chief Financial Officer Denise L. Carter
 - G. Director of Budget Service Larry Kean
 - H. Chief of Staff of FSA Colleen McGinnis
 - I. Chief Financial Officer at FSA Mehul Parekh
 - J. Chief of Staff in the Office of the Under Secretary Melanie Muenzer
5. Provide communications and correspondence, including but not limited to electronic mail (email), email attachments, texts, letters, memoranda, and other documentation and virtual meeting recordings between any Department staff and representatives of KPMG (during the period October 1, 2022, through the date the search for the communications and correspondence is conducted) that mention or otherwise are associated with errors in the underlying data used to develop assumptions used to calculate the subsidy re-estimates for the Direct Loan and FFEL programs

Secretary Cardona, it is imperative that you understand and take responsibility for the Department's failures. The Department's bungling, dereliction of duties, and general disregard for the interests of the taxpayer are an embarrassment. The Nation deserves better.

Should you need clarification of these needs, please contact Committee staff member Gabriella Pistone at Gabriella.Pistone@mail.house.gov or 202-225-6558.

Sincerely,



Virginia Foxx
Chairwoman
U.S. House Committee on Education
and the Workforce



Lloyd Smucker
Member of Congress

Enclosure